



## ***ENERGY RISK MANAGEMENT***

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## **NATURAL GAS & POWER MARKET REPORT FOR JULY 29, 2009**

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### **NATURAL GAS MARKET NEWS**

The United States Natural Gas Fund LP said it is reducing its position in NYMEX natural gas futures and may have to seek alternative investments due to new limits being imposed by federal regulators. It said it may use alternative investments to meet its investment objective, including total return over the counter swaps that are intended to provide the economic equivalent of the return from ownership of the benchmark futures contract.

Enbridge has entered into a letter of intent with Chevron USA Inc on expansion of its central Gulf of Mexico offshore pipeline system to accommodate up to 100 mmcf/d. Under the agreement, Enbridge proposes to construct, own and operate the Walker Ridge Gathering System to provide natural gas gathering services to the potential Jack, St. Malo and Big Foot ultra deepwater developments. The cost of this expansion is expected to be about \$500 million.

#### **Generator Problems**

**FRCC** – FPL's 864 Mw St. Lucie #2 nuclear unit was back on line and at 61% capacity this morning, up from 35% on Wednesday. The unit was restarted late Monday, from a shutdown that began back on July 13<sup>th</sup>.

**NPCC** – Ontario Power Generation's 494 Mw Unit 1 at Lambton coal-fired power station shut by early Wednesday. The Ontario government wants to shut all the coal – fired generation in the province by the end of 2014 for health and environmental reasons. Separately, the 490 Mw unit 1 at the Nanticoke coal-fired power station shut early Wednesday, several hours after exiting an outage.

**The NRC reported this morning that 95,900 Mw nuclear generation capacity was on line, up 0.47% from Tuesday and off 1.72% from the same time a year ago.**

Talks are starting to take place between Ukraine and Naftogaz for the restructuring of debt, including a \$500 million Eurobond maturing in September, according to Finance Minister Ihor Umansky.

Britain is preparing to take delivery of another Qatari LNG tanker at the Welsh South Hook terminal on Aug. 4. The Al Sheehaniya, which has capacity for up to 210,000 cubic meters of super-cooled gas, is coming from Ras Laffan in Qatar.

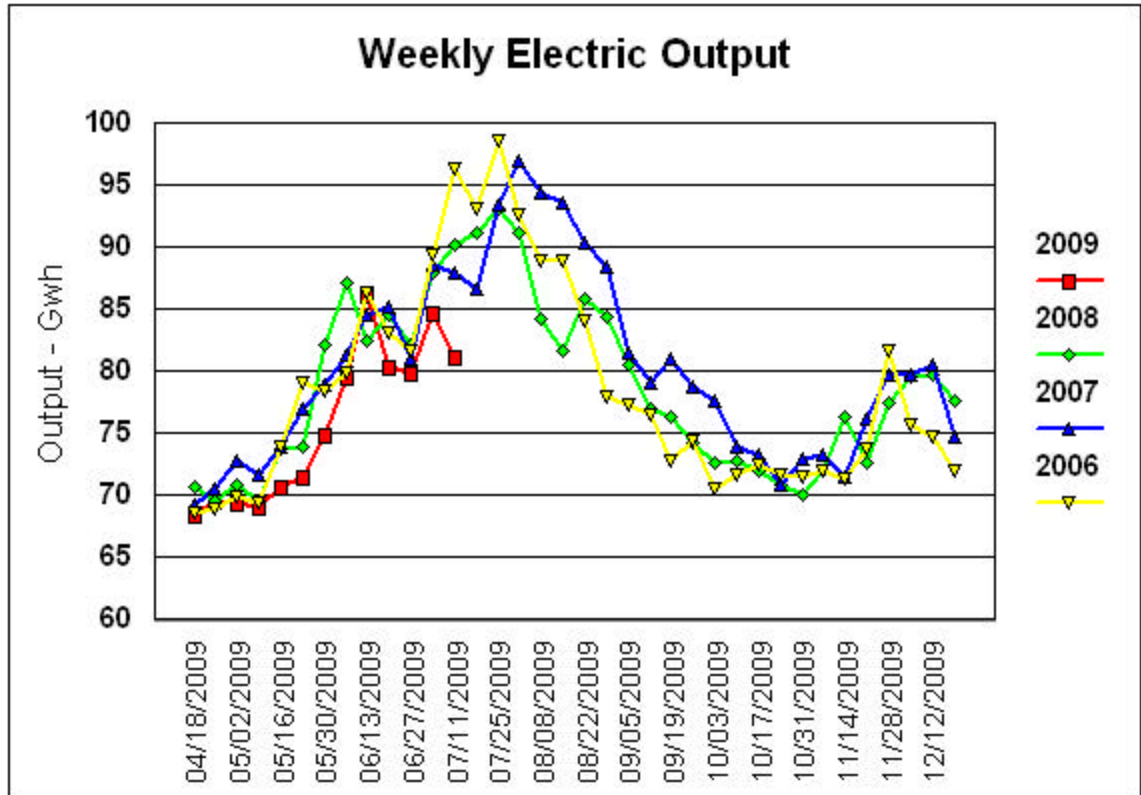
Spanish gas company, Medgaz's Chief Executive, Rafael Villaseca stated on Wednesday that there appears to be a delay in the 8 billion cubic meter pipeline, which is expected to pump gas from Algeria to Spain. The delay is expected to take until the middle of 2010. Spain imports more than 99% of its gas needs and is also the world's third-largest importer of LNG. Algeria is its main supplier.

The Russian government has declined a proposal by the Finance Ministry to increase a tax on gas extraction and gas export duty in a bid to protect gas giant Gazprom's revenues. The ministry proposed raising the tax to 162 roubles (\$5.29) per 1,000 cubic meters from the current 147 and the duty to 35% from the current 30%. The measure would have collected an extra 60 billion roubles (1.96 billion), most of it coming from Gazprom's revenues.

Australia's Environment Minister, Donna Faragher has said that Chevron needs to propose better protection of the corals and the flatback turtle population on Barrow Island, a class A nature reserve where Chevron is planning to build its LNG facility. This must be done prior to approval of such site.

**PIPELINE RESTRICTIONS**

SNG is in the process of abandoning its 16-inch Mississippi Canyon 268 Line. This will result in the shutting in of West Delta 152 and SNG will not be accepting nominations at the point effective with the timely cycle for July 29 and lasting for approximately six days. Since there is a firm at this receipt point, this work will result in an event of force majeure.



Effective intraday cycle 1 for the gas day of July 29, due to reduced nominations, TN will accept increases for nominations sourced from meters located on the Carthage Line Lateral.

**ELECTRICITY MARKET NEWS**

According to the Edison Electric Institute, US electricity production in the week ending July 25<sup>th</sup> fell by 11% on the year and 4.17% on the week to 81,265 Gwh. For the first 30 weeks of the year, power production totaled 2,231,012 Gwh, down 4.5% on the year.

**MARKET COMMENTARY**

The natural gas market today remained pressured after it sold off on Tuesday. The August natural gas contract, which was trading above the \$3.50 level early in the morning, tumbled throughout the session ahead of its expiration at the close. The market was further pressured by the sharp losses seen in the oil markets in light of the bearish EIA petroleum inventory report. The natural gas market sold off to a low of \$3.296 before it retraced some of its losses and traded back over the \$3.40 level ahead of the close. It settled down 15.6 cents at \$3.379.

Market expectations for Thursday's EIA Storage Report appear to be ranging between a build of 67 bcf and 86 bcf, with an average estimate of a 73 bcf build. For the same week a year ago, stocks built by an adjusted 68 bcf while the 5-year average is a build of 51 bcf.

The natural gas market will remain pressured in light of the expected build in inventories, which are still at record highs. The market will remain on the defensive amid the milder weather outlook for next week. The market is seen finding resistance at \$3.565, \$3.676 and \$3.696. More distant resistance is seen at \$3.805, \$3.835, \$3.87 and \$3.913. Support is seen at \$3.459, \$3.439, \$3.40, \$3.366, \$3.331 and \$3.202.

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